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ACTION WHA-00

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INFO	LOG-00	NP-00	AID-00	CEA-01	COME-00	CTME-00	INL-00
	DINT-00	ITCE-00	DOTE-00	SRPP-00	EB-00	EXME-00	E-00
	FAAE-00	UTED-00	VC-00	FRB-00	H-01	TEDE-00	INR-00
	ITC-01	L-00	VCE-00	AC-01	NSAE-00	OES-01	OMB-01
	OPIC-01	PM-00	PRS-00	ACE-00	SP-00	SSO-00	SS-00
	STR-00	TEST-00	TRSE-00	USIE-00	R-00	EPAE-00	PMB-00
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R 311500Z JUL 02  
FM AMEMBASSY BOGOTA  
TO SECSTATE WASHDC 0073  
INFO OPEC COLLECTIVE  
AMEMBASSY BRASILIA  
AMEMBASSY BUENOS AIRES  
AMEMBASSY CARACAS  
AMEMBASSY LA PAZ  
AMEMBASSY LIMA  
AMEMBASSY MEXICO  
AMEMBASSY QUITO  
AMEMBASSY SANTIAGO  
CIA WASHDC  
NSC WASHDC  
SECDEF WASHDC  
JOINT STAFF WASHDC  
USCINCSO MIAMI FL  
DOE HQS FORRESTAL BLDG WASHINGTON DC

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DEPT FOR WHA/AND

E.O. 12958: N/A  
TAGS: ECON, ENRG, EPET, CO  
SUBJECT: PASTRANA'S ENERGY RECORD AND ENERGY OPPORTUNITIES  
IN LATIN AMERICA

1. SUMMARY: ECONOFF ATTENDED THE FIRST CONGRESS ON MINING AND  
PETROLEUM LEGISLATION, AT WHICH INDUSTRY LEADERS FROM ACROSS  
SOUTH AMERICA PRESENTED VIEWS ON THE INDUSTRY'S FUTURE AND A

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UNITED STATES DEPARTMENT OF STATE  
REVIEW AUTHORITY: OSCAR J OLSON  
DATE/CASE ID: 02 JUL 2004 200303455

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READOUT OF THE PASTRANA ADMINISTRATION'S ENERGY RELATED SUCCESSES AND FAILURES. FOR THE REGION, THE BIGGEST OPPORTUNITY AND CHALLENGE IS THE APPROVAL OF FTAA, DESCRIBED BY ONE OBSERVER AS "A SWISS TRAIN, WITH A ONE-WAY TICKET," WHICH WILL ARRIVE ON TIME AND TAKE THOSE WHO ARE READY. MINISTER OF MINES AND ENERGY LUISA LAFAURIE HIGHLIGHTED THE CHALLENGES THAT FACED THE PASTRANA ADMINISTRATION AND SAID THE MINISTRY ACCOMPLISHED ITS MOST SIGNIFICANT GOAL: PASSAGE OF A NEW PETROLEUM ROYALTY LAW WITH IMPROVED CONDITIONS TO ATTRACT NEW EXPLORATION (SEPTEL). HOWEVER, INDUSTRY ANALYSTS SAID THAT THE NEW ROYALTY LAW, WHILE GOOD, DOES NOT GO FAR ENOUGH TOWARD MAKING COLOMBIA COMPETITIVE AND THAT COLOMBIA STILL FACES A LOOMING SHORTAGE IF NEW DISCOVERIES ARE NOT MADE AND BROUGHT ONLINE BY THE END OF THE DECADE. A CONSISTENT THEME OF THE CONGRESS WAS THAT SOUTH AMERICA DOES NOT SUFFER FROM A LACK OF RESOURCES, BUT RATHER FROM A LACK OF POLITICAL GUARANTEES AND SAFEGUARDS AS WELL AS FINANCIAL SYSTEMS CAPABLE OF BRINGING THESE RESOURCES TO MARKET PROFITABLY. END SUMMARY.

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2. FRANCISCO JAVIER LETURIA, OF THE CHILEAN NATIONAL MINING SOCIETY SAID THAT SOUTH AMERICA, DESPITE BEING RICHER IN RESOURCES THAN NORTH AMERICA, HAS LAGGED BEHIND IN WEALTH DUE TO WEAKER "RULES OF THE GAME." DESCRIBING THE SITUATION IN CHILE, HE SAID THAT IT WAS AFTER REMOVING MANY OF THE OVERLAPPING AND OFTEN CONFLICTING GOVERNMENT BODIES THAT OVERSEE MINING, COMMON THROUGHOUT LATIN AMERICA, THAT CHILE WAS ABLE TO DEVELOP A SUCCESSFUL MINING INDUSTRY. WITH THE CURRENT "BUFFET" OF CHOICES, MULTINATIONALS CHOOSE NOT ONLY THE COUNTRIES WITH THE BEST RESOURCES, BUT WITH THE BEST LEGAL AND SECURITY SITUATION. JAIME MALDONADO, AN ANALYST FOR BOOZ-ALLEN AND HAMILTON, DESCRIBED THE IDEAL SITUATION FOR ENERGY MULTINATIONALS, LACKING THROUGHOUT MUCH OF LATIN AMERICA, AS A CONFLUX OF STABLE ECONOMY, SOCIAL WELFARE, AND STABLE POLITICS.

3. LARRY MERRIAGE, VICE PRESIDENT FOR PUBLIC AFFAIRS FOR OCCIDENTAL PETROLEUM CORPORATION, SAID THAT HIS COMPANY HAS OFTEN FOUND ITSELF BEING ASKED TO PLAY THE ROLE OF THE STATE IN REMOTE AND ISOLATED REGIONS OF LATIN AMERICAN COUNTRIES. HE QUESTIONED THE WISDOM OF ASKING GEOPHYSICISTS AND ENGINEERS TO MAKE SOCIAL WELFARE DECISIONS ON BEHALF OF THE STATE. LIKEWISE, JAVIER HERNANDEZ, PRESIDENT OF COLOMBIA'S GASNATURAL, COMMENTED THAT THE INSISTENCE IN MANY LATIN AMERICAN COMPANIES THAT PRIVATE COMPANIES EXIST SIDE-BY-SIDE WITH STATE COMPANIES CREATES AN UNWORKABLE HYBRID. BETTER,

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HE SAID, THAT NATIONS SHOULD DECIDE TO MOVE TO EITHER  
EXTREME, BUT PREFERRABLY THAT OF WHOLLY PRIVATE ENERGY  
SECTORS.

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4. ONE OF THE MOST ENERGETIC SESSIONS DEALT WITH THE  
IMMINENT ARRIVAL OF THE "SWISS TRAIN CALLED FTAA," AS  
DESCRIBED BY FORMER MINISTER OF DEVELOPMENT JORGE RAMIREZ  
OCAMPO. OCAMPO, WHO ORGANIZED THE CARTAGENA ROUND OF FTAA  
DISCUSSIONS WHILE MINISTER, SAID THAT SINCE THE BEGINNING OF  
DISCUSSIONS IN 1994 THAT NO DEADLINES HAVE BEEN MISSED AND  
THAT HE FULLY EXPECTS THAT IN 2005 THERE WILL BE AGREEMENT,  
EVEN IF NOT BY ALL COUNTRIES, ON FTAA. EXPERTS VIEWED THIS  
AS A POSITIVE OPPORTUNITY FOR THE REGION AND POINTED TO THE  
MANY POSITIVE BENEFITS THAT MEXICO HAS RECEIVED FROM NAFTA.  
THE ENERGY COMPONENT OF FTAA IS SIGNIFICANT SINCE IT  
REPRESENTS 19 PERCENT OF THE LATIN AMERICAN EXPORTS, AND IS  
MUCH HIGHER IN SOME COUNTRIES, INCLUDING COLOMBIA, ACCORDING  
TO MARTIN GUSTAVO IBARRA, A TRADE ANALYST. HOWEVER, THERE IS  
NO ENERGY COMMITTEE OR GROUP INVOLVED IN THE FTAA  
NEGOTIATIONS, AND FURTHER, THE PRIVATE SECTOR HAS BEEN  
NOTABLY ABSENT. THERE WAS A GENERAL CALL BY THE PANELISTS  
FOR ENERGY MINISTRIES AND BUSINESS GROUPS TO ACTIVELY  
CONTRIBUTE THROUGHOUT THE REST OF THE NEGOTIATIONS.

5. DESPITE THE CONGRESS'S THEME OF ATTENTION TO POLITICAL  
ASPECTS OF THE PETROLEUM AND MINING SECTOR, THERE WAS SOME  
DISCUSSION OF THE PHYSICAL POSSIBILITIES, ESPECIALLY IN

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	G-00	NFAT-00	SAS-00	/009W			

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INFO OPEC COLLECTIVE  
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AMEMBASSY LA PAZ  
AMEMBASSY LIMA  
AMEMBASSY MEXICO  
AMEMBASSY QUITO  
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COLOMBIA, THAT EXIST FOR THE REGION. LATIN AMERICA HAS SEVEN PERCENT OF THE WORLD'S PROVEN OIL RESERVES, COMPARED TO 65 PERCENT IN THE MIDDLE EAST AND FIVE PERCENT IN NORTH AMERICA.

LATIN AMERICA HAS OVER 30 PERCENT OF THE WORLD'S MINERAL RESERVES. COLOMBIA HAD TWO OF THE WORLD'S BIGGEST FINDS DURING THE 1980S, BUT SAW EXPLORATION DROP OFF DURING THE 1990S. HOWEVER, THERE IS HOPE THAT WITH THE IMPROVED ROYALTY LAW AND WITH THE STILL POSITIVE GEOPHYSICAL POSSIBILITIES THAT NEW BIG DISCOVERIES COULD OCCUR. HOWEVER, SOME ANALYSTS POINTED OUT THAT, WHILE AN IMPROVEMENT, THE CURRENT ROYALTY LAW STILL HAS A FAIRLY HIGH "GOVERNMENT TAKE" AND THAT COUPLED WITH THE ONGOING SECURITY CONCERNS WILL PROBABLY CONTINUE TO LIMIT COLOMBIAN OIL FINDS. FOR EXAMPLE, THERE IS PRESENTLY ONLY ONE MAJOR SEISMIC COMPANY CONDUCTING SEISMICS IN COLOMBIA, WHICH MEANS THAT SEISMIC COSTS ARE TWO TO THREE TIMES HIGHER THAN COMPARABLE COUNTRIES.

6. MINISTER LAFAURIE SAID THAT PASSING A NEW ROYALTIES LAW, ENDING THE DOMESTIC SUBSIDY ON GASOLINE, AND INCREASING NATURAL GAS PRODUCTION WERE THE PRIORITIES THAT FACED THE PASTRANA ADMINISTRATION WHEN IT TOOK OFFICE IN 1998. THE NEW

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ROYALTY LAW, WHICH WAS PASSED AND THEN STRUCK DOWN FOR  
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TECHNICAL REASONS, ONLY TO BE APPROVED AGAIN THIS YEAR, IS  
THE ONLY ONE OF THE THREE THAT THE ADMINISTRATION ACTUALLY  
ACCOMPLISHED. DISCUSSIONS ARE ONGOING FOR EXPANDING TEXACO'S  
OFFSHORE NATURAL GAS PRODUCTION (SEPTTEL). FURTHER, SHE  
CAUTIONED THAT GASOLINE SUBSIDIES APPEAR TO BE TOO DELICATE  
AN ISSUE TO BROACH. FURTHER, THE ELIMINATION OF SUBSIDIES  
WOULD PROBABLY ONLY ADD TO THE RAMPANT THEFT OF GASOLINE FROM  
ECOPETROL PIPELINES AND SMUGGLING AND SALE OF CONTRABAND  
GASOLINE FROM VENEZUELA.

7. COMMENT: WHILE COLOMBIA IS NOT A MAJOR OIL PRODUCING  
COUNTRY BY WORLD STANDARDS, OIL IS TREMENDOUSLY IMPORTANT TO  
THE COLOMBIAN ECONOMY. IT REPRESENTS 44 PERCENT OF  
COLOMBIA'S EXPORTS, AND HAS ENABLED COLOMBIA TO HAVE A  
POSITIVE BALANCE OF PAYMENTS OVER THE LAST DECADE. COLOMBIA  
NEEDS, PERHAPS MORE THAN OTHER COUNTRIES IN THE REGION, TO  
ENACT LEGISLATION THAT WOULD SUPPORT THE ENERGY INDUSTRY. AS  
EVIDENCED BY THE HIGH QUALITY ANALYSIS PRESENTED AT MINING  
AND PETROLEUM CONGRESS, THE EXPERTISE EXISTS IN COLOMBIA, IT  
IS JUST A MATTER OF BRINGING IT TO BEAR.  
PATTERSON

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